

AR35

GESCO  
Distributing  
Limited

1970  
Annual  
Report



## GESCO Distributing Limited

### Directors:

Irving Shnier	Toronto
Norman Shnier	Toronto
Allan Shnier	Winnipeg
Cecil Shnier	Winnipeg
Philip Shnier	Toronto
I. H. Asper	Barrister and Solicitor Winnipeg
H. R. Bennett	Partner, Richardson Securities of Canada Toronto

### Officers:

Irving Shnier	President, Chief Executive Officer
Norman Shnier	Executive Vice-President, Chief Financial Officer
Allan Shnier	Vice-President
Cecil Shnier	Secretary
Philip Shnier	Vice-President
James A. Goddard	Vice-President

### Transfer Agent and Registrar:

The Royal Trust Company,  
Halifax, Montreal, Toronto, Winnipeg,  
Calgary and Vancouver

### Auditors:

Touche Ross & Co., Toronto

### Listed on:

The Toronto Stock Exchange

### Head Office:

1965 Lawrence Avenue West,  
Weston, Ontario.

## Financial Highlights

	1970	1969
Sales .....	\$26,400,000	\$26,700,000
Income before extraordinary item .....	\$ 166,000	\$ 617,000
Net income .....	\$ 88,000	\$ 617,000
Earnings per share		
Not including extraordinary item .....	\$ 0.16	\$ 0.60
Including extraordinary item ...	\$ 0.09	\$ 0.60
Number of shares outstanding ....	1,025,000	1,025,000
Working capital .....	\$ 4,079,000	\$ 3,925,000

## GESCO Distributing Limited

### To Our Shareholders:

Sales were maintained at \$26,400,885 in the fiscal year ended September 25, 1970, compared with \$26,675,879 the previous year. Net profit was \$165,948 (16 cents per share) in the latest year, before an extraordinary write-off of \$78,242 (8 cents per share), and \$616,980 (60 cents per share) a year earlier.

### Markets

The past year saw intense competition in the floor coverings and home furnishings markets. According to latest Dominion Bureau of Statistics reports, the recent volume of business being done by the home furnishings trade was about 10 percent less than a year ago. Reports in the trade indicate that floor coverings sales were down more than 10 percent.

As intensified competition developed during the year, your management decided to strive to maintain the market position of G. E. Shnier Co., our operating entity. This position was maintained in the face of a general decline in sales in the industry.

Reduced demand for furnishings resulted from federal government efforts aimed at curbing inflation through fiscal and monetary policies directed at industry and the public. This came at a time of increased capacity among Canadian manufacturers to meet anticipated market growth in the 1970's.

The softening in the national economy was intensified by regional conditions: continuing poor wheat sales and curtailed potash export markets in Saskatchewan; construction and forest industry strikes in British Columbia; continuing slow rate of economic development and high unemployment in Quebec and the Maritimes.

In all regions of the country the company had to forego some projected sales by a policy of selective acceptance of certain types of orders to minimize exposure to bad debt losses.

### Costs

Government policies directed at restraining price increases and deflating the economy, did not have the same effect on GESCO's costs as they had on its market environment. The company encountered increased costs for many items — goods, labor, operating expenses, freight, interest, insurance, and taxes.

The adjustment of selling prices invariably lags the impact of increased costs, and, in the past year, competitive conditions precluded any immediate reaction.

When the developing market situation made it apparent that projected sales increases, on which overhead costs had been planned, would not be obtained, management developed and implemented programs to reduce expenses, and to operate effectively at lower expense levels. These

programs will contribute more fully to results in coming periods, and be of continuing benefit to the company.

### Operations

During the year several operational changes were made. New management in the Montreal branch began efforts to increase sales and reverse the loss position encountered here. The reorganization of the branch was completed towards the end of the fiscal period. This was too late to make a contribution to the year under review, but there was an almost immediate reversal of the branch's sales performance. A month-by-month sales improvement has continued, and the branch should make a contribution to consolidated profits in the 1971 fiscal year.

### Research & Development

The Board of Directors has decided to write off in 1970 the company's investment to date in the development of an electrostatic flocking process.

The company has been involved as a partner in research to apply flocking to textile backings, using an electrostatic process. Such a process would have broad use in furniture, interior decorating and apparel.

The program received government approval for tax write-offs and certain grants in assistance.

Further development work has been suspended pending a review of the potential return on investment and decisions on what further efforts are warranted by progress to date.

### Outlook

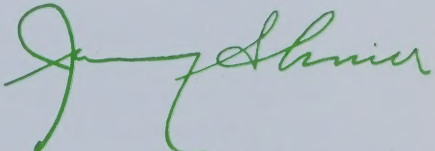
Having come through this period of intense competitive pressures, the prospects are offered for more favorable circumstances in the current year. Increased housing starts have, in recent months, coincided with signs of improved demand for floor coverings and home furnishings at the retail level. The federal government has expressed its intentions to bolster the economy through fiscal and monetary means.

These factors, together with our own continuing efforts, should work towards a return to more profitable operating levels for our company. Since the end of the year, continuing tightened controls on our inventory and accounts receivable positions has resulted in improvements in the company's current ratios.

Management extends thanks to all employees for their special efforts during a difficult year.

We would also like to commend our many dealers across the country for their loyalty, and also thank our manufacturers for the continued high quality of products we distribute.

On behalf of the Board



Irving Shnier, President

January 26, 1971



## Review of Operations

The G. E. Shnier Co. has grown to its leading position as a distributor of floor coverings and home furnishings through the sound planning and financing of the movement of quality merchandise between manufacturer and consumer. The efficient and profitable acquisition, warehousing, transportation and supplying of goods has required aggressive marketing and close liaison with suppliers, retailers, and contractors.

Working to this concept requires the continuing modification of the company's branch distribution facilities to meet changing requirements. During the year under review, several new premises were occupied and some unneeded space closed out.

The Winnipeg branch moved into a new specially-designed building providing 42,000 square feet of well-utilized space. The Furniture Products Division relocated its Toronto operations from the Head Office building to new leased quarters of 10,000 square feet, providing much-needed room for the cushioning fabrication business. The divisions remaining in the home warehouse obtained more space to meet their needs.

Satellite warehouses were opened in London, Ontario, to serve the populous south-western region of the province, and in Halifax, to supply the Maritime provinces.

During the year, also, the Saskatoon depot was closed, when the G. E. Shnier Co. management found this area could be effectively served from the Regina branch.

In several branches it was determined that warehouse space occupied by the company exceeded current requirements at that location, and the extra space was sublet. This analysis of current space requirements will be extended to remaining company-occupied buildings in the current year.

The program is providing worthwhile cost savings for the company.

### Product Review

The Floor Coverings Division, the company's largest, maintained its market position in 1970. The division continued its representation of leading national brand carpets, vinyl tile and sheet goods, sponge rubber carpet under-cushioning and flooring accessories.

The past year was one of adjustment and development in



the carpet industry. Many manufacturers, including those we work with, were completing capital outlay projects. This involved the dropping and changing of product lines and the introduction of new styles. Printed and shag carpets and new products for institutional applications were among the features. Our manufacturers continue to be leaders in the introduction of new products to the market, with Celanese being the first to offer printed carpets.

Armstrong Carpets, whose products are distributed by our Montreal branch, has recently completed the restyling of its entire carpet line, and is now considered to be among the leaders in floor-covering fashions. The increased market acceptance position for this improved line will augment the



company's internal efforts to improve the performance of the Montreal branch.

Among exciting new products introduced this year by our hard floor coverings manufacturers are 'Place-n-Press' self-adhesive tiles by Armstrong.

Competition has been intense in hard floor coverings in 1970 and has culminated in one of five manufacturers in Canada withdrawing from the business. This will aid the entire hard floor coverings trade by bringing capacity closer to consumption and helping restore pricing stability.

The Furniture Products Division, the largest national supplier of furniture cushioning, has utilized the increased Toronto space to improve its fabricating operations. The division, which is the G. E. Shnier Co.'s second largest, distributes rubber and polyurethane foam and other cushioning materials to furniture and mattress manufacturers and also stocks a range of upholstery supplies including fasteners, furniture casters, lacquers and adhesives. Foam products are cut, molded and laminated to customer specifications.

Our foam cushioning products manufacturer, B. F. Goodrich Canada, moved its production to a new plant at Bramalea, Ontario. Some start-up problems were encountered which restricted output. These production problems have been largely resolved, and supplies returned to a near normal basis.

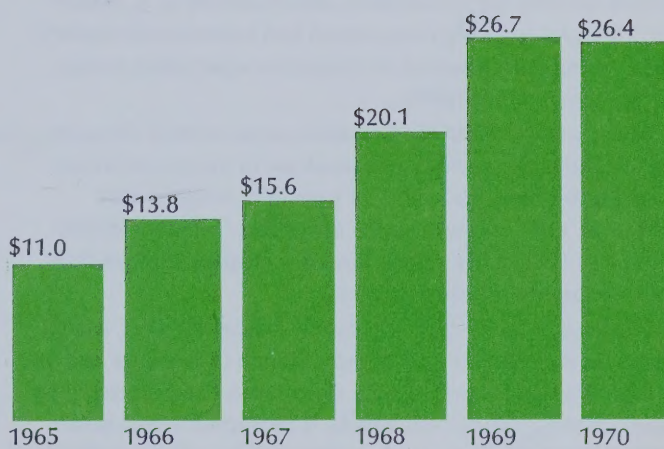
The Hardware Specialties Division improved its penetration in the market for its line of maintenance items and the company's own brand of 'Protecto' floor runners and mats. The number of outlets supplied by the company is expanding, including department stores, chain stores and specialty and hardware dealers.

#### Administration and Control

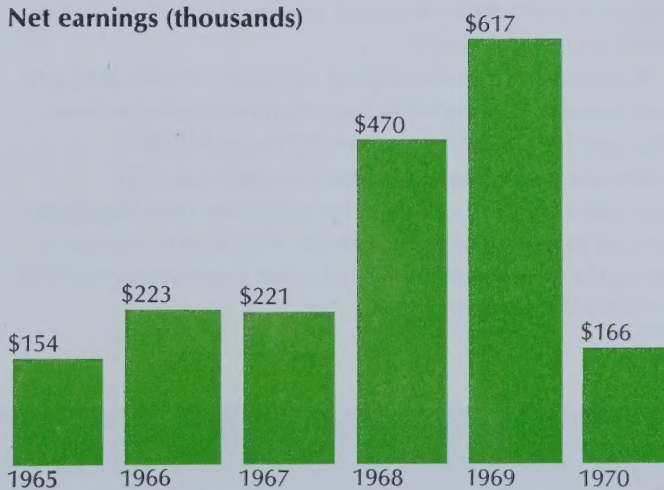
More comprehensive administrative information systems were implemented during the past year, keyed to the Honeywell 120 system computer installed in 1969. In the current fiscal year, the company expects to begin obtaining benefits from its investment in computer programs and systems. Management believes that the company's control systems are leaders in the distributor field.

Computer applications including inventory control, automatic updating of customer master files and market analysis are combined in a program providing an integrated management information and control system. This enables G. E. Shnier Co. automatically to analyse current data and

#### Sales (millions)



#### Net earnings (thousands)



react to market fluctuations in item demands and vendor activity.

Some computer time in excess of GESCO's current requirements is rented to outside firms.

#### Market Prospects

The soft market conditions of 1970 had a severe impact on the volume of business available to the floor coverings and home furnishings industries, but the bright overall outlook for these industries for the 1970's was not diminished. By all indicators, the market for soft and resilient floor coverings and home furnishings should grow at a strong pace through the decade.



## Review of Operations

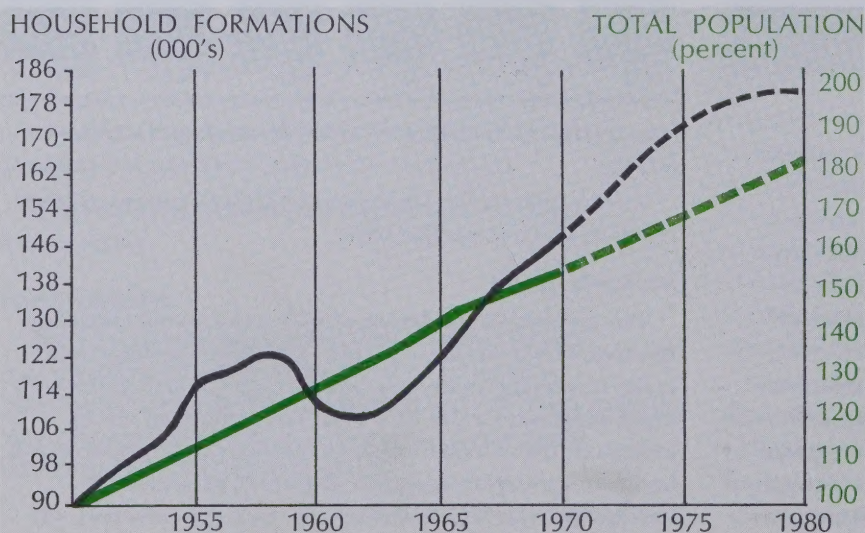
The components of housing demand alone suggest strong growth markets for the products distributed by G. E. Shnier Co. This, plus growing institutional and commercial markets (now taking thirty percent of Canadian carpet sales) makes for good market prospects.

The age structure of the Canadian population is changing significantly. The number of Canadians in the prime household-establishing age — 20 - 34 years old, reached 4.64 million in 1970, and will total 5.66 million in 1975 and 6.65 million in 1980; a net gain in this age category of more than two million in the next ten years.

The total of family and non-family households in Canada, based on data from the Dominion Bureau of Statistics and Central Mortgage and Housing Corporation and estimates by the Economic Council of Canada, is projected to increase from 5.77 million at the end of 1970 to 7.49 million at 1980 year-end, and to be increasing at an annual rate of more than 180 thousand at that point.

Total demand for new housing will reach 230,000 units per year between 1971 and 1976 and 250,000 annually between 1976 and 1981. Housing starts in 1970 were 185,000.

The market for floor coverings, currently valued at approximately \$150 million at the distributor level, has been forecast to grow at an even faster pace because of increasing per capita spending on home and office furnishings, including furniture and floor coverings.





## Statement of Income

FOR THE YEAR ENDED SEPTEMBER 25, 1970  
(with comparative figures for 1969)

	1970	1969
SALES .....	\$26,400,885	\$26,675,879
Income from operations before the following charges .....	\$ 601,147	\$ 1,425,005
Depreciation and amortization of fixed assets .....	64,969	39,428
Amortization of other assets .....	36,927	14,326
Interest on long-term debt .....	119,203	73,271
	221,099	127,025
Income from operations .....	380,048	1,297,980
Taxes on income — current .....	222,200	589,000
— deferred .....	(8,100)	92,000
	214,100	681,000
Income before extraordinary item .....	165,948	616,980
Extraordinary item — net of tax (Note 5) .....	78,242	—
NET INCOME .....	\$ 87,706	\$ 616,980
EARNINGS PER SHARE (based on 1,025,000 shares outstanding)		
Not including extraordinary item .....	16.2c	60.2c
Including extraordinary item .....	8.6c	60.2c



## Balance Sheet

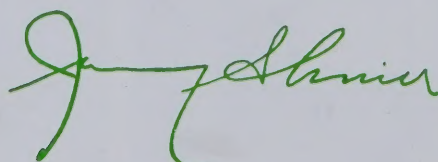
AS AT SEPTEMBER 25, 1970  
(with comparative figures for 1969)

	ASSETS	1970	1969
CURRENT			
Accounts receivable .....		\$ 5,397,242	\$ 6,660,184
Inventory at the lower of cost and net realizable value .....		5,279,902	5,788,586
Income taxes receivable .....		52,362	—
Prepaid expenses and sundry assets .....		100,268	170,120
		<u>10,829,774</u>	<u>12,618,890</u>
INVESTMENTS (Note 1)		63,158	205,933
FIXED ASSETS at cost less accumulated depreciation and amortization of \$104,010 (1969 — \$39,428) .....		352,141	336,040
OTHER ASSETS .....		218,778	255,363
		<u>\$11,463,851</u>	<u>\$13,416,226</u>

	LIABILITIES		
CURRENT			
Bank indebtedness (secured) .....		\$ 3,352,973	\$ 2,779,243
Accounts payable .....		2,814,423	5,013,596
Income taxes .....		—	589,000
Note payable — shareholders .....		162,129	230,129
Other notes payable .....		341,090	81,528
Sinking fund payment due within one year .....		80,000	—
		<u>6,750,615</u>	<u>8,693,496</u>
8% SINKING FUND DEBENTURES SERIES A (Note 2) .....		1,440,000	1,520,000
DEFERRED INCOME TAXES .....		74,800	92,000

	SHAREHOLDERS' EQUITY		
CAPITAL STOCK			
Authorized — 1,500,000 shares without par value			
Issued and fully paid — 1,025,000 shares .....		2,493,750	2,493,750
RETAINED EARNINGS .....		704,686	616,980
		<u>3,198,436</u>	<u>3,110,730</u>
		<u>\$11,463,851</u>	<u>\$13,416,226</u>

On behalf of the Board



IRVING SHNIER, Director



NORMAN SHNIER, Director



## Statement of Retained Earnings

FOR THE YEAR ENDED SEPTEMBER 25, 1970  
(with comparative figures for 1969)

	1970	1969
Balance at beginning of year .....	\$ 616,980	\$ —
Net income .....	87,706	616,980
Balance at end of year .....	<u>\$ 704,686</u>	<u>\$ 616,980</u>

## Statement of Source and Application of Funds

FOR THE YEAR ENDED SEPTEMBER 25, 1970  
(with comparative figures for 1969)

### SOURCE OF FUNDS

	1970	1969
Operations		
Net income .....	\$ 87,706	\$ 616,980
Add: Non-cash charges		
Depreciation and amortization of fixed assets .....	64,969	39,428
Amortization of other assets .....	36,927	14,326
Write-down in investment .....	142,775	—
Increase (decrease) in deferred taxes .....	(17,200)	92,000
Total from operations .....	315,177	762,734
Proceeds from issue of securities .....	—	2,326,843
Working capital of predecessor partnership .....	—	1,344,619
	<u>315,177</u>	<u>4,434,196</u>

### APPLICATION OF FUNDS

Additions to fixed assets, less disposals .....	81,070	182,305
Purchase of 8% sinking fund debentures .....	—	67,200
Provision for purchase of debentures .....	80,000	—
Other assets .....	342	115,582
Investments .....	—	143,715
	<u>161,412</u>	<u>508,802</u>
Increase in working capital for the year .....	153,765	—
Working capital at beginning of year .....	3,925,394	—
WORKING CAPITAL AT END OF YEAR .....	<u>\$ 4,079,159</u>	<u>\$ 3,925,394</u>



## Notes to Financial Statements, September 25, 1970

### 1. Investments

These represent shares in and advances to 50% owned affiliated companies as follows:

	1970	1969
Shares .....	\$29,062	\$ 58,058
Advances .....	30,376	144,155
Miscellaneous investments ....	3,720	3,720
	<u>\$63,158</u>	<u>\$205,933</u>

The investment in shares is stated at cost (after writing off \$23,000 investment in an affiliated company) plus the company's interest in the income less dividends of the affiliated companies since acquisition, and is equivalent to the company's equity in such companies.

### 2. 8% Sinking Fund Debentures Series A

These are secured by a first floating charge on all the assets and property of the company and mature on February 1, 1984. Sinking fund payments are required on February 1 in each year as follows:

1972 to 1974 inclusive.....	\$ 80,000
1975 to 1979 inclusive.....	\$105,000
1980 to 1984 inclusive.....	\$135,000

The trust deed securing the Debentures contains restrictions on the payment of dividends on common shares unless the company is able to meet certain tests set forth in the trust deed.

## Auditors' Report

The Shareholders,  
GESCO Distributing Limited

We have examined the balance sheet of GESCO Distributing Limited as at September 25, 1970 and the statements of income and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the

### 3. Commitments

Lease obligations

Annual rentals payable under long-term leases are approximately \$431,000 during each of the years 1971 to 1983 inclusive.

Executive Pension Plan

The unfunded liability with respect to past service amounts to \$532,934 of which \$402,231 is payable in installments on December 15 in each year as follows:

Years 1970 .....	\$39,999
1971 to 1973 .....	\$32,740
1974 to 1979 .....	\$25,240
1980 to 1984 .....	\$17,271
1985 to 1987 .....	\$ 8,739

and the amount of \$130,703 may be paid in full or in part at any time prior to December 15, 1984 at the discretion of the company.

### 4. Remuneration of Directors and Officers

The aggregate direct remuneration of the Directors and Senior Officers for the year ended September 25, 1970 was \$275,000.

### 5. Extraordinary Item

The company financed the development of a new process by an affiliated company. This program was approved as research by the Department of Industry of Canada. The company has, for the time being, discontinued further financing and payments made by the company less applicable income taxes and federal research and development grants have been written off.

financial position of the company as at September 25, 1970 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

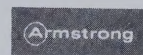
Toronto, Ontario  
December 15, 1970

Touche Ross & Co.  
Chartered Accountants





## Products and Suppliers



Floor Coverings, Ceramic Floor and Wall Tile, Hardware Specialty Products, Household Aids, Furniture Cushioning and Upholstering Supplies.

B. F. GOODRICH sponge carpet cushion and furniture cushioning, ARMSTRONG tiles, vinyl sheet flooring and cushioned flooring, CROWN ceramic wall tile, CARDINAL mosaics, PROTECTO mats and matting, PROTECTO Karpet Kover.

Carpets, tiles, vinyl sheet flooring, cushioned flooring, rubber and vinyl cove base, stair nosing, installation equipment, adhesives, rubber and vinyl mats and matting, stair treads, foam furniture cushioning.

*On page two and at left are two striking examples of the versatile use of Celanese carpet in interior decorating. The carpeted fireside bunks are cushioned with B. F. Goodrich polyurethane foam.*





GESCO Distributing Limited

Head Office — 1965 Lawrence Avenue West, Weston, Ontario